

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**REPORT ON THE EXAMINATION
OF THE DISTRICT OF COLUMBIA'S
HIGHWAY TRUST FUND
FORECAST STATEMENTS FOR
FISCAL YEARS 2004 - 2008 WITH ACTUAL
AUDITED FIGURES FOR FY 2003**



**AUSTIN A. ANDERSEN
INTERIM INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



May 28, 2004

The Honorable Anthony A. Williams
Mayor
District of Columbia
1350 Pennsylvania Avenue, N.W.
Mayor's Correspondence Unit, Room 221
Washington, D.C. 20004

Dear Mayor Williams:

The Office of the Inspector General has completed an examination of the District of Columbia Highway Trust Fund's 5-year forecast of conditions and operations. The District Department of Transportation administers the Highway Trust Fund (Fund) for the District of Columbia government and is responsible for preparing the forecast.

Our examination included a review of existing internal controls for the purpose of expressing an opinion on the accompanying forecasted statements. Although we found no instances of noncompliance that would be reportable under generally accepted government auditing standards, the objective of our review was not to provide an opinion on overall compliance with such provisions.

In our opinion, the forecasted statements referred to above are presented in conformity with guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants. The underlying assumptions made and methodologies used to develop the statements provide a reasonable basis for the 5-year forecast.

We appreciate the cooperation and courtesies extended to our staff during the examination. If you have any questions, please call me at the number below, or have a member of your staff contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-8279.

Sincerely,

A handwritten signature in cursive script, reading "Austin A. Andersen".

Austin A. Andersen
Interim Inspector General

AAA/js

Enclosure

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

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May 28, 2004

The Honorable Anthony A. Williams
Mayor
District of Columbia
1350 Pennsylvania Avenue, N.W.
Mayor's Correspondence Unit, Room 221
Washington, D.C. 20004

Re: Auditor's Report on Forecast Statements

Dear Mayor Williams:

In accordance with D. C. Code § 9-109.02(e), the Office of the Inspector General has completed an examination of the District of Columbia Highway Trust Fund's 5-year forecast of conditions and operations. Our examination was made in accordance with attestation standards prescribed by generally accepted government auditing standards (GAGAS) promulgated in *Government Auditing Standards (2003 Edition)*, published by the Comptroller General of the United States, and American Institute of Certified Public Accountants (AICPA) attestation standards incorporated by GAGAS. Our examination included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

In our opinion, the accompanying forecast is presented in conformity with the guidelines for presentation of a forecast established by the AICPA and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Mayor Anthony A. Williams
May 28, 2004
Page 2 of 2

The forecast projects deficits for the District's Highway Trust Fund for fiscal years 2006 through 2008. However, should actual funding be insufficient during those years, the District plans to push back or delay approved projects to avoid deficit spending.

Sincerely,

A handwritten signature in dark ink, appearing to read "Austin A. Andersen". The signature is fluid and cursive, with a long horizontal stroke at the end.

Austin A. Andersen
Interim Inspector General

AAA/js

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(\$000s)

CAPITAL PROGRAM FORECAST STATEMENTS

	D.C.			D.C.		
	Transportation	Federal		Transportation	Federal	
	Trust Fund	Aid	Total	Trust Fund	Aid	Total
	FY 2003	FY 2003	FY 2003	FY 2004	FY 2004	FY 2004
Sources						
Beginning Balance	\$ 39,265	\$ 374,331	\$ 413,596	\$ 25,124	\$ 324,309	\$ 349,433
Interest Earnings	396	-	396	147	-	147
Motor Fuel Tax	26,856	-	26,856	27,923	-	27,923
Federal Aid Apportionment		104,288	104,288	-	129,645	129,645
Total Revenues	<u>66,517</u>	<u>478,619</u>	<u>545,136</u>	<u>53,194</u>	<u>453,954</u>	<u>507,148</u>
USES						
Est. Project Management	3,143	15,984	19,127	3,655	14,226	17,881
Est. Non-Participating Cost	6,135	-	6,135	3,751	-	3,751
Est. Design, Site, Construction and Equipment Cost	<u>32,115</u>	<u>138,326</u>	<u>170,441</u>	<u>30,898</u>	<u>160,658</u>	<u>191,556</u>
Total Expenditures	<u>41,393</u>	<u>154,310</u>	<u>195,703</u>	<u>38,304</u>	<u>174,884</u>	<u>213,188</u>
ENDING BALANCE	<u>\$ 25,124</u>	<u>\$ 324,309</u>	<u>\$ 349,433</u>	<u>\$ 14,890</u>	<u>\$ 279,070</u>	<u>\$ 293,960</u>

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(\$000s)

CAPITAL PROGRAM FORECAST STATEMENTS

	D.C.			D.C.		
	Transportation	Federal	Total	Transportation	Federal	Total
	Trust Fund	Aid	FY 2005	Trust Fund	Aid	FY 2006
	FY 2005	FY 2005	FY 2005	FY 2006	FY 2006	FY 2006
Sources						
Beginning Balance	\$ 14,890	\$ 279,070	\$ 293,960	\$ 4,909	\$ 236,506	\$ 241,415
Interest Earnings	71	-	71	-	-	-
Motor Fuel Tax	28,490	-	28,490	29,069	-	29,069
Federal Aid Apportionment	-	129,645	129,645	-	129,645	129,645
Total Revenues	<u>43,451</u>	<u>408,715</u>	<u>452,166</u>	<u>33,978</u>	<u>366,151</u>	<u>400,129</u>
USES						
Est. Project Management	3,712	15,746	19,458	6,692	26,778	33,470
Est. Non-Participating Cost	3,729	-	3,729	4,138	-	4,138
Est. Design, Site, Construction and Equipment Cost	<u>31,101</u>	<u>156,463</u>	<u>187,564</u>	<u>34,286</u>	<u>176,825</u>	<u>211,111</u>
Total Expenditures	<u>38,542</u>	<u>172,209</u>	<u>210,751</u>	<u>45,116</u>	<u>203,603</u>	<u>248,719</u>
ENDING BALANCE	<u>\$ 4,909</u>	<u>\$ 236,506</u>	<u>\$ 241,415</u>	<u>\$ (11,138)</u>	<u>\$ 162,548</u>	<u>\$ 151,410</u>

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(\$000s)

CAPITAL PROGRAM FORECAST STATEMENTS

	D.C.			D.C.		
	Transportation	Federal		Transportation	Federal	
	Trust Fund	Aid	Total	Trust Fund	Aid	Total
	FY 2007	FY 2007	FY 2007	FY 2008	FY 2008	FY 2008
Sources						
Beginning Balance	\$ (11,138)	\$ 162,548	\$ 151,410	\$ (26,756)	\$ 106,189	\$ 79,433
Interest Earnings	-	-	-	-	-	-
Motor Fuel Tax	29,660	-	29,660	30,262	-	30,262
Federal Aid Apportionment	-	129,645	129,645	-	129,645	129,645
Total Revenues	<u>18,522</u>	<u>292,193</u>	<u>310,715</u>	<u>3,506</u>	<u>235,834</u>	<u>239,340</u>
USES						
Est. Project Management	6,762	23,049	29,811	5,067	19,907	24,974
Est. Non-Participating Cost	4,097	-	4,097	3,397	-	3,397
Est. Design, Site, Construction and Equipment Cost	<u>34,419</u>	<u>162,955</u>	<u>197,374</u>	<u>31,406</u>	<u>171,049</u>	<u>202,455</u>
Total Expenditures	<u>45,278</u>	<u>186,004</u>	<u>231,282</u>	<u>39,870</u>	<u>190,956</u>	<u>230,826</u>
ENDING BALANCE	<u>\$ (26,756)</u>	<u>\$ 106,189</u>	<u>\$ 79,433</u>	<u>\$ (36,364)</u>	<u>\$ 44,878</u>	<u>\$ 8,514</u>

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OVERVIEW

This report summarizes the Office of the Inspector General's (OIG) review of the District of Columbia Highway Trust Fund's (Fund) 5-year forecast of conditions, and operations. The objective of our review was to evaluate the underlying assumptions made and methodologies used to develop the statements. These statements are used to provide a reasonable basis for the 5-year forecast of the District's ability to meet future local matching requirements under the Federal Highway Administration Program for capital improvements to the District's transportation structure. We conducted our examination in accordance with GAGAS and GAGAS incorporated American Institute of Certified Public Accountants standards for attestation engagements and included such tests as we considered necessary under the circumstances. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

BACKGROUND

D.C. Code § 9-109.02(e) (2001) requires the OIG to examine the forecast statements of the Fund's expected conditions and operations for the next 5 years to determine the District's ability to meet future local matching requirements under the Federal Highway Administration Program for capital improvements to the District's transportation structure.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Government fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is a separate accounting classification with a self-balancing set of accounts.

The Fund is a governmental fund used to account for the monies from motor vehicle fuel taxes and fees that are held in escrow by the District for the District's share of federal-aid highway projects. The District accounts for the construction of federal-aid highway projects, which are primarily financed by the Department of Transportation's Federal Highway Administration (FHWA) grants, in the Capital Projects Fund. The Capital Projects Fund is reimbursed from monies in the Fund to cover the District's share of the federal-aid highway projects.

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BASIS OF ACCOUNTING

The modified accrual basis of accounting is used to account for the Fund. Under the modified accrual basis of accounting, revenues are recognized when they become both “measurable” and “available.” Measurable means the amount of the transaction can be determined, and available means monies are collectible within the current period, or soon thereafter, to be used to pay liabilities of the current period.

Those revenues susceptible to accrual are excise taxes, rental and other fees, and interest. Excise taxes are recognized when the sale and use take place. Interest and fees are recognized as revenue through the passage of time.

MANAGEMENT ASSUMPTIONS

The District Department of Transportation (DDOT) annually prepares a 6-year forecast for the Fund, which is part of the Capital Improvement Plan of the District. The 5-year forecast opined upon is taken from DDOT's 6-year forecast. The forecast reflects management's judgment regarding the expected conditions, operations, and course of action for the Fund as of May 18, 2004. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently change due to the nature of the activities covered by the Fund (major design and construction), and those differences may be material.

The forecasted statements are based on the following assumptions:

- The “D.C. Transportation Trust Fund” columns represent estimated local revenue sources from motor vehicle fuel tax collections and interest earnings, less the District's share of project expenditures that are subject to federal aid match.
- The “Federal Aid” columns represent the federal aid commitment balances and projection of matching grants for known highway projects.
- The FY 2003 amounts are based on actual amounts included in the audited financial statements prepared by the OIG and issued January 30, 2004. The amounts include the beginning Highway Trust Fund balances for the local share and federal aid. The local share equals the audited fund balance as of September 30, 2002, plus the FY 2003

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collections and receivables as of September 30, 2003, less the FY 2003 payments and audited outstanding liabilities as of September 30, 2003. The federal aid amount includes the federal share of FHWA financed projects in progress or completed, but not closed.

- Interest earnings are estimated using a .75 percent annual interest rate on the rolling monthly average cash balance. Management used zero interest when the monthly rolling balance reported a cumulative negative interest earned for the year.
- The estimated uses for project management, non-participating costs, design, site construction, and equipment costs are based on the actual estimated completion date for the phase of each federal-aid highway project. The project management and design, site construction, and equipment costs that are eligible for matching federal aid are allocated based on the federal and local share of each individual project. The non-participating costs are those costs that are not eligible for federal aid match and include overhead construction engineering costs, utility and sewer repair, and construction enhancements not covered by FHWA.

NOTES TO FORECAST STATEMENTS

REVENUE SOURCES

Beginning Balance – Actual fiscal year 2002 ending balances carried forward for FY 2003. In each subsequent fiscal year, the beginning balance is the ending balance brought forward from the prior fiscal year.

Interest Earnings – Estimated annual earnings, calculated at a rate of .75 percent, on the beginning balance plus annual revenues minus expenditures.

Motor Fuel Tax – Annual estimated excise tax earned on motor fuel sold in the District.

Federal Aid Apportionment - Federal funding provided to all states and the District of Columbia by legislation enacted by Congress. At the time of the report, legislation had not been enacted for FY 2004 - FY 2009. The out-year projections of apportionments are based on the average between the Administration's and House legislative proposals for the next Six Year Surface Federal Transportation Bill.

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USE OF FUNDS

Estimated Project Management Costs - Annual estimated costs for salaries of in-house employees and contracted construction management services.

Estimated Non-Participating Costs – Annual estimated costs not eligible for matching federal aid, which include overhead costs, utility and sewage repairs, and construction enhancements not covered by the FHWA.

Estimated Design, Site, Construction, and Equipment Costs – Annual estimated costs eligible for matching federal aid funds.

ENDING BALANCE

The ending balance equals the opening balance from the audited financial statement plus the amount of forecasted revenues, less the use of funds for estimated project expenditures. The ending balance is carried over to the following fiscal year as the beginning balance.

FORECASTED DEFICIT

In fiscal years 2006 through 2008, deficit spending in the Fund is projected based on current revenue assumptions and expenditures for approved projects. In order to avoid violations of the Anti-Deficiency Act, which prohibit expenditures in excess of appropriations, DDOT will modify its Capital Improvement Program by postponing the start of projects.